

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
HANOVER, KANSAS**

Financial Statements
With
Independent Auditors' Report
DECEMBER 31, 2019

BRUNA AUDITING SERVICES LLC
DEREK BRUNA
CERTIFIED PUBLIC ACCOUNTANT
WASHINGTON, KANSAS

**RURAL WATER DISTRICT #1
WASHINGTON COUNTY, KANSAS
HANOVER, KANSAS**

TABLE OF CONTENTS

FOR THE YEAR ENDED December 31, 2019

Independent Auditor's Report	1-2
Management Discussion and Analysis	3-6
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9-10
Notes to the Financial Statements	11-17

BAS LLC
Bruna Auditing Services LLC
Derek Bruna, CPA

201 C Street
Washington, KS 66968
Phone: (785)-325-2061
Fax: (785)-325-2194

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Washington County Rural Water District No. 1
Hanover, Kansas 66945

I have audited the accompanying financial statements of Washington County Rural Water District No. 1 (WCRWD No. 1) which comprise the Statement of Net Position as of and for the year ended December 31, 2019, and the related Statement of Revenues, Expenses, and Changes in Fund Net Position, and Cash Flow for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit Guide* (KMAAG); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the WCRWD No. 1, as of December 31, 2019, and the results of their operations, changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter: Management Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of management's response to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Bruna Auditing Services LLC



Derek Bruna, CPA

Washington, Kansas

February 10, 2020

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2019

This section of the Washington County Rural Water District No. 1's annual financial report presents analysis of the District's financial performance during the fiscal year ended on December 31, 2019. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. The District's financial statements are presented as one fund level financial statements because the District operates with a single fund.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. The District uses accrual accounting practices. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This MD&A should be used concurrently with financial statements taken as a whole.

FINANCIAL HIGHLIGHTS AND ANALYSIS

Please refer to the attached table which shows a Condensed Statement of Net Position and Condensed Statement of Revenues, Expenses, and Changes in Fund Net Position.

Net position may serve, over time, as a useful indicator of a government's financial position. The Statement of Net Position has been prepared implementing GASB 63 and 65. Net position represents the difference between assets and liabilities. In the case of the District, the total net position as of year ended December 31, 2019 was \$2,017,677. The net position is comprised of Net Investment in Capital Assets of \$1,468,930, Restricted Bond Reserves of \$47,000 and Unrestricted Amounts of \$501,747. This represents an increase of \$57,632 from the previous year end of \$1,960,045 or 2.94%. This is due to strong operations once again by the district.

Current assets decreased 54.79% to \$553,366. The District used its position in cash to retire an existing bond obligation and refinance at a lower rate with a new bond. The analysis of long-term debt in the notes to financial

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

statement show the activity. Operating revenues and expenses were relatively flat, each varying around 2%. Accounts receivable have stayed relatively constant which shows management is staying on top of billing and doing a good job of collecting. The account for alternate source of water that the district had received and yet to pay had a value of \$134,625. This number remained unchanged from last year. In the past, the District had paid for items and was waiting on the reimbursement. The district will of course spend this money on future projects, and this number fluctuates depending on the timing of payments. Current assets increased due to profitable operations.

Current liabilities were down significantly as the current portion of debt payment is significantly less than prior years due to the refinancing of the debt.

Unrestricted amounts of net position were \$501,747 for the year ended. The net invested in capital assets went up significantly as the debt was reduced. It is good to see the performance of the district being reflected in the net position. With good operations, you would expect the net position to increase. Again, the expenditures the District incurred in the past are paying off in the efficiency of the operations continues to show positive trends. Unrestricted amounts of net position represent the amount available to be used to meet the District's ongoing obligations to creditors and operations of facilities. The District has sufficient funds to meet requirements for cash outlays in the next fiscal years as well as the financial capacity to sustain operations. At the end of the current fiscal year, the District is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal years.

A large portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The District uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending. The Net Investments in Capital Assets decreased was virtually unchanged this fiscal year. Depreciation/amortization expense was \$89,461 and the district purchased \$88,941 worth of assets for the year. The primary acquisitions for 2019 were system improvements for \$71,741 and intangible costs on the financing of the bond for \$17,200. The District has numerous long term assets scheduled that run their course annually on the appropriate depreciation schedules. Please see the Condensed Tables as well as Table 1 in the Notes for a breakdown of the capital assets being utilized by the District. The amount in the statement of net position would have been higher without the Alternate Source of Water account as previously discussed.

While the Statement of Net Position shows the change in financial position of assets, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

Operating profits for the District was \$73,860 for the year ended December 31, 2018 and \$79,262 for 2019, which includes depreciation expense. The interest expense on the bonds is in this figure of \$55,853 for 2019. Interest expense will decrease in the years to come. The District has continued to make its payments on time.

The statement of cash flows shows a decrease in cash and equivalents of \$634,452. The use of cash and equivalents to pay down the bond is the driving factor here. The ending cash in the statement of cash flows is \$421,360.

The bond payable has been put in the financials, and the cost of issuance has also been put in as an asset to amortize over the life of the bond. The proceeds from the bond have either been spent on assets, or are in the United Bank and Trust account. The existing bonds were paid down, and replaced with new 2019 Series A Bonds. The 2010 Series Bonds were retired completely. More information regarding the issuance and repayment of the two can be found in Note Table 2 of the notes to the financial statements.

CAPITAL ASSET

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2019

Capital Assets – The Water District's investment in capital assets as of December 31, 2018 amounts to \$1,939,909 and \$1,938,930 for 2019 (net of accumulated depreciation). These two years shows very little change. If the alternate source of water had not brought the balance down it would have been \$2,073,555. This investment in capital assets includes land, buildings, improvements, equipment well fields, projects and construction in progress.

Additional information on the District's capital assets can be found in Note A and Table 1 of the notes to the financial statements of this report.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Mr. Darryl Schlabach, Washington County Rural Water District No. 1, 101 S Bern Street, Hanover, KS 66945.

WASHINGTON COUNTRY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2019

FINANCIAL ANALYSIS - 2019

CONDENSED STATEMENTS OF NET POSITION

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current/other assets	\$ 553,366	\$ 1,223,856	\$ -670,490	-54.79%
Capital assets	1,938,930	1,939,909	-979	-0.05%
Total Assets	<u>2,492,296</u>	<u>3,163,765</u>	<u>-671,469</u>	<u>-21.22%</u>
Current/other liabilities	44,619	93,720	-49,101	-52.39%
Long Term liabilities	430,000	1,110,000	-680,000	-61.26%
Total Liabilities	<u>474,619</u>	<u>1,203,720</u>	<u>-729,101</u>	<u>-60.57%</u>
Net Position				
Net Invested in capital assets	1,468,930	677,010	791,920	116.97%
Restricted	47,000	169,500	-122,500	-72.27%
Unrestricted	501,747	1,113,535	-611,788	-54.94%
Total Net Assets	<u>\$ 2,017,677</u>	<u>\$ 1,960,045</u>	<u>\$ 57,632</u>	<u>2.94%</u>

**CONDENSED STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues				
Operations	\$ 637,334	\$ 651,803	\$ -14,469	-2.22%
Other	17,111	12,120	4,991	41.18%
Total Revenues	<u>654,445</u>	<u>663,923</u>	<u>-9,478</u>	<u>-1.43%</u>
Expenses				
Depreciation	89,461	96,669	-7,208	-7.46%
Operating	485,722	493,394	-7,672	-1.55%
Total Expenses	<u>575,183</u>	<u>590,063</u>	<u>-14,880</u>	<u>-2.52%</u>
Excess (deficiency) before contributions	<u>79,262</u>	<u>73,860</u>	<u>5,402</u>	<u>7.31%</u>
Changes in Net Position				
Beginning net position	1,960,045	1,877,626	82,419	4.39%
Capital Contributed, Adjust/Benefit Unit	-21,630	8,559	-30,189	-352.72%
Ending net position	<u>\$ 2,017,677</u>	<u>\$ 1,960,045</u>	<u>\$ 57,632</u>	<u>2.94%</u>

WASHINGTON CO. RURAL WATER DISTRICT #1

STATEMENT OF NET POSITION

December 31, 2019

PRIMARY GOVERNMENT-BUSINESS TYPE ACTIVITIES

ASSETS

CURRENT ASSETS

United Bank And Trust MMDA	\$	0
Bank of Palmer CD 160K		0
Bank of Palmer CD		0
Citizens State Bank-2019 CD		188,352
Citizens State Bank		20,329
Citizens State Bank-CD		212,655
First Commerce Bank		0
Petty Cash		23
Accounts Receivable		13,330
AFLAC Rec		106
Inventories		105,336
Prepaid Expenses		3,982
Prepaid Insurance		9,253
TOTAL CURRENT ASSETS	\$	<u>553,366</u>

CAPITAL ASSETS

Alternate Source Water	\$	(134,625)
Equip & Water System: River Crossing		161,503
Equip & Water System: Well Field		1,221,450
Equip & Water System: Equipment & Water System		4,079,260
Equip & Water System: Land & Easements		85,517
Equip & Water System: Office & Shop Building		193,029
Equip & Water System: Office Furniture & Equipment		22,407
Equip & Water System: Vehicles		186,749
Bond Issuance Cost		42,698
Accumulated Amortization Depreciation		(12,335)
Accumulated Depreciation-Equipment and Water System		(3,671,135)
Accumulated Depreciation-Office & Shop Building		(59,195)
Accumulated Depreciation- Office Equipment		(22,114)
Accumulated Depreciation-Vehicles		(154,280)
NET CAPITAL ASSETS	\$	<u>1,938,930</u>

TOTAL ASSETS

\$ 2,492,296

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Aflac Payable	\$	79
Accounts Payable		(3,996)
Payroll Liabilities		229
Sales Tax Payable		0
Water Protection Payable		456
Bonds-Current Portion		40,000
Interest Payable		7,851
TOTAL CURRENT LIABILITIES	\$	<u>44,619</u>

LONG-TERM LIABILITIES

Bonds	\$	430,000
TOTAL LONG-TERM LIABILITIES	\$	<u>430,000</u>
TOTAL LIABILITIES	\$	<u>474,619</u>

NET POSITION

Invested in Capital Assets Net of Related Debt	\$	1,468,930
Restricted		47,000
Unrestricted		501,747
TOTAL NET POSITION	\$	<u>2,017,677</u>
TOTAL LIABILITIES AND NET POSITION	\$	<u>2,492,296</u>

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019
OPERATING REVENUES	
Collection Fees	\$ 200
Late Penalty	5,918
Maintenance Fee	193,269
Miscellaneous	19,132
Reading Meter	120
Transfer Fees	300
Water Sales	418,395
TOTAL SALES	\$ 637,334
OPERATING EXPENSES	
Metron-Farnier. LLC-units	\$ 31,639
IDT	18,770
Auditing, Geologists & Legal	3,530
Bank Charges	5
Chemicals	17,279
Depreciation/Amorization	89,461
Dues	636
Equipment: Machinery Use on Repairs	2,500
Equipment: Machinery Use on New Lines	3,834
Equipment: Maintenance & Repairs	1,568
Equipment: Fuel	1,013
Equipment: Machinery Upgrade	6,450
Insurance	24,564
Leak Reporting	140
Lease	6,000
Meeting Expense	11,370
Mileage	1,494
Miscellaneous Expense	791
Office Expense	4,727
Payroll Expenses	14,823
Postage	439
Preventative Maintenance	464
Radio	550
Repairs & Maintenance: Equipment Use on Repairs	48
Repairs & Maintenance: Mowing	5,740
Repairs & Maintenance: Other	11,322
Retirement Expense	16,455
Salaries	174,409
Shop Expense	923
Tank Maintenance	9,550
Taxes: Clean Drinking Water Fee	1,736
Truck Expense: Gas	2,004
Truck Expense: Maintenance	365
Truck Expense: Insurance	75
Truck Expense: Repairs	1,038
Truck Expense: Taxes	29
Truck Expense: Other	8,118
Utilities: Electricity	37,592
Utilities: Propane	112
Utilities: Telephone: Darrell's Cell	1,190
Utilities: Telephone: Office	1,966
Utilities: Trash	330
Utilities: Water & Sewer	455
Water Testing	2,382
TOTAL OPERATING EXPENSES	\$ 517,887
NET ORDINARY INCOME	\$ 119,447
OTHER INCOME (EXPENSE)	
Farm	\$ 4,500
Farm Taxes & Repairs	(1,443)
Interest Expense	(55,853)
Interest Income: Citizens State Bank	5,135
Interest Income: First Commerce	1,424
Interest Income: Other	6,052
TOTAL OTHER INCOME (EXPENSE)	\$ (40,185)
CHANGE IN NET POSITION	\$ 79,262
NET POSITION, BEGINNING OF PERIOD	1,960,045
CAPITAL CONTRIBUTIONS, ADJUSTMENT/BENEFIT UNIT	(21,630)
NET POSITION, END OF PERIOD	2,017,677

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts From Customers	\$ 631,693
Other receipts farm	4,500
Cash payments for goods and services	(406,792)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	229,401
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash payments for equipment, well field, intangible bond setup, etc.	(88,941)
Cash Paid For Interest	(55,853)
Cash received bond refinance	470,000
Cash received for equity adjustment, benefit unit	(16,670)
Cash payments for retiring bond debt	(1,185,000)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(876,464)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	12,611
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	12,611
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(634,452)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	1,055,812
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 421,360

See accompanying notes to the financial statements

WASHINGTON CO. RURAL WATER DISTRICT #1
STATEMENT OF CASH FLOWS - CONTINUED
Year Ended December 31, 2019

	2019
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET	\$
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	118,003
Adjustments to reconcile operating income (loss)	
to net cash provided (used) by operating activities:	
Depreciation	89,461
Change in assets and liabilities:	
(increase) decrease in accounts receivable	(5,641)
(increase) decrease in prepaid insurance	15,310
(increase) decrease in prepaid expenses	(2,669)
(increase) decrease in inventory	29,037
increase (decrease) in equity accounts	0
increase (decrease) in accounts payable	(14,101)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 229,401

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Entity: Rural Water District No. 1, Washington County, Kansas (the District) is a water utility that provides service for domestic, agricultural, and other purposes to rural customers. The district was organized under Kansas law as a quasi-municipal corporation. The District's purpose is to acquire water and water rights, to build and acquire pipelines and other facilities, and to operate the same for the purpose of furnishing water to owners and occupants of land located within the District.

Summary of Significant Accounting Policies: Basis of Presentation and Accounting – The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net position, revenues, and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the Statement of Net Position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales. All accounts receivable as of December 31, 2019 are considered collectible with a balance of \$13,330.

Inventories – Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the average cost method. As the materials are used, they are charged to the property or capitalized appropriately. The amount of inventory on the books for 2018 is \$134,373 and \$105,336 for 2019.

Property and Equipment – The cost of additions to the District's plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and if applicable, interest on borrowed funds to finance construction. The District did not capitalize interest during the fiscal year 2019. The

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statement of revenues, expenses, and changes in net position. Please refer to Table 1 for breakdown of capital assets and useful lives information.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Debt Issue Costs – Costs related to the issuance of debt are amortized under the straight-line method over the life of the bonds.

Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.

Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members' costs, which approximate fair value, and recorded as capital contributions when received. Benefit units, currently \$23,400, are recorded as contributions when received.

Net Position – Net position comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Cash and Equivalents/ Investments: Cash includes all monies in the bank and highly liquid investments with maturity dates of less than three months. The carrying value of cash approximates fair value because of the short maturities of those instruments. Investments are stated at cost and consist of certificates of deposit which have an original maturity date longer than three months. All investments are in financial institutions insured by the FDIC. Investments in excess of \$250,000 FDIC insurance are collateralized with bank instruments.

A breakdown of cash and investments:

Citizens State Bank	\$20,329	
Citizens State Bank CD	\$401,007	
Petty Cash	\$23	
Total		\$421,360 carrying amount of deposits

Accounts Payable: The carrying amount of accounts payable at the end of the year was \$4,619.

Fair Value of Financial Instruments: "Disclosure about Fair Value of Financial Instruments," requires certain disclosures regarding the fair value of financial instruments. Cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, as shown in the financial statements at fair value because of the short-term maturity of these instruments, (which is also their carrying value.)

The Statement of Cash Flows was prepared with the Direct Method and a reconciliation of net income to net cash provided by operating activities has been provided.

The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The District distinguishes between operating and non-operating revenues and expenses in its Statement of Revenues, Expenses and Changes in Net Position. For this purpose, the District's operating revenues result from providing water to the benefit units on the grid, as well any fees associated with providing this. Operating expenses include the cost attributed to administration, client services, utilities, maintenance and operations and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; injuries to employees; and natural disasters for which the District purchases commercial insurance. During the year ended December 31, 2019 the District did not reduce insurance coverage from levels in place during the prior year. No settlements have exceeded coverage levels in place during the past three fiscal years.

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year and include but are not limited to fuel, prepaid insurance, engineering fees, etc.

Investment Income: Investment Income for the year ended December 31, 2019 was \$12,611 which was all interest on bank deposits.

Revenues/Expenses: The major categories of revenue and expense items, water sales and activities, operating expenses,

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

administrative expenses, etc. are shown separately on the face of the Statement of Revenues, Expenses and Changes in Fund Net Position.

Bond Payable: A resolution of Rural Water District No. 1, Washington County, Kansas, approving the issuance by The Kansas Rural Water Finance Authority of \$470,000 aggregate principle amount of Kansas Rural Water Finance Authority Revenue Bonds, Series A, 2019, (Rural Water District No. 1, Washington County, Kansas) to provide financing for the construction and acquisition of certain water distribution system improvements of said rural water district; authorizing the execution of a promissory note, pledge of revenues agreement and ancillary financing documents between said rural water district and the Kansas Rural Water Finance Authority dates as of October 1, 2019 which contain certain covenants and provisions respecting the operation and revenues of the district's water distribution system and other matters relating thereto which will provide for the payment of such bonds. As of December 31, 2019, all \$470,000 had been received. Please Refer to Management Discussion and Analysis and Table 2 for more information pertaining to Bond Issuance.

The Series B, 2010 Bonds were retired during 2019. Again please see Table 2 for further information.

GASB 40 Disclosures

Custodial Credit Risk-This is the risk that in the event of a failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All of the District's investments are held in the name of the District. The District is not subject to custodial credit risk as the deposits are covered by depository insurance.

Credit Risk- This is risk that an investment will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The District's investment policy is that none of its total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities.

Interest Rate Risk- As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment portfolio to short term investments. At year end, the District's deposits and investments were all invested in such accounts, and in fact are all current and liquid.

Concentration of Credit Risk-The entity is not subject to this risk even though all of its deposits are with the same banking institution because they are guaranteed through FDIC insurance. The balance of deposits in the bank are below the federal limit of \$250,000.

Bond Reserve Account: Kansas Department of Health and Environment requires a 10% reserve account of the issuance of the bond. That amount is \$47,000 and is shown as a restricted asset.

Use of Restricted/Unrestricted Net Assets: When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to apply restricted assets first.

Net revenues of the District have been pledged as security for the debt, and the District is required to have net revenues, as defined in the debt agreements, in each year of at least 125% of that year's principal and interest payment requirements. This requirement was met for the year ended December 31, 2019.

Defined Benefit Pension Plan

Plan description.

**RURAL WATER DISTRICT NO. 1
WASHINGTON COUNTY, KANSAS
Hanover, Kansas**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2019**

The (non-school municipality) participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1% contribution rate for the Death and Disability Program) and the statutory contribution rate was 8.39% for the fiscal year ended December 31, 2018. Contributions to the pension plan from (non-school municipality) were made for the year ended December 31, 2018.

Net Pension Liability

At December 31, 2018, the (non-school municipality)'s proportionate share of the collective net pension liability reported by KPERS was \$125,790. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. The (non-school municipality)'s proportion of the net pension liability was based on the ratio of the (non-school municipality)'s contributions to KPERS, relative to the total employee- and non-employer contributions of the Local subgroup within KPERS. Since the KMAAG regulatory basis of accounting does not recognize long-term debt, this liability is not reported in this financial statement. The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publicly available on the website at www.kpers.org or can be obtained as described above.

Litigation: There is no pending litigation noted for the District as of the date the audit report was issued.

Subsequent Events: The financial statements considered subsequent events through February 10, 2020 the date the financial statements were available to be issued as management reviewed events through aforementioned date.

Compliance with Kansas Statutes: References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the Water District. There were no apparent statutory violations during the year ended December 31, 2019.

WASHINGTON COUNTRY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019

Table 1

ASSET	LIFE				
Buildings	33-50 Years				
Water Transmission/Distribution System	33-40 Years				
Equipment	6-10 Years				
Vehicles	5 Years				
2018 YEAR END					
Equipment & Water Systems/Well Field/River Crossing					
Land & Easements		COST	ACCUMULATED DEPRECIATION	COST LESS COST LESS DEPRECIATION	
Office & Shop Building		5,390,473	3,597,318	1,793,155	
Office Furniture & Equipment		85,517	0	85,517	
Vehicles		193,028	55,334	137,694	
Bond Issuance Cost		22,408	21,906	502	
		186,748	144,380	42,368	
		25,498	10,200	15,298	
TOTAL		\$ 5,903,672	\$ 3,829,138	\$ 2,074,534	
2019 YEAR END					
Equipment & Water Systems/Well Field/River Crossing					
Land & Easements		COST	ACCUMULATED DEPRECIATION	COST LESS COST LESS DEPRECIATION	
Office & Shop Building		5,462,213	(3,671,135)	1,791,078	
Office Furniture & Equipment		85,517	0	85,517	
Vehicles		193,029	(59,195)	133,834	
Bond Issuance Cost		22,408	(22,114)	294	
		186,749	(154,280)	32,469	
		42,698	(12,335)	30,363	
TOTAL		\$ 5,992,614	\$ (3,919,058)	\$ 2,073,555	

WASHINGTON COUNTY RURAL WATER DISTRICT NO. 1 - HANOVER, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

Table 2

STATEMENT OF CHANGES IN LONG - TERM DEBT

For the Year Ended December 31, 2019

<u>Issue</u>	<u>Interest Rate</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance</u>		<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
				<u>Beginning of Year</u>	<u>Additions</u>				
Revenue Bond B Series 2010	1.0-4.6%	\$ 1,695,000	10/1/2030 \$	1,185,000 \$	0 \$	-\$1,185,000 \$	-\$1,185,000 \$	\$0 \$	\$55,853
<u>Principle Payments Made</u>	2011	2012	2013	2014	2015	2016	2017	2018	2019
	\$40,000	\$60,000	\$65,000	\$65,000	\$65,000	\$70,000	\$70,000	\$75,000	\$1,185,000
Total	\$1,695,000								

<u>Issue</u>	<u>Interest Rate</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Revenue Bond Series A 2019	1.4-2.1%	\$ 470,000	10/1/2030 \$	0 \$	470,000 \$	\$0 \$	\$470,000 \$	\$470,000 \$	\$0
<u>Schedule of Payments</u>	2020	2021	2022	2023	2024	2025	2026-2030		
	\$40,000	\$35,000	\$35,000	\$40,000	\$40,000	\$40,000	\$210,000		
Total	\$470,000								